

**SOUTH CAROLINA DEPARTMENT OF DISABILITIES AND SPECIAL NEEDS**

**PROVIDER AUDIT POLICY**

**STATE FISCAL YEAR ENDING JUNE 30, 2008**

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### [Attachment A](#) – Sample Financial Statements

Supplemental Schedule of Revenues and Expenditures - Administration

Supplemental Schedule of Revenues – Capitated (In Aggregate) or Non-Capitated  
(By Program)

Supplemental Schedule of Expenditures – Capitated (By Program) or Non-Capitated  
(By Program)

Schedule of Expenditures of Federal Awards

Reference Number: 275-04-DD

Title of Document: Procedures for Implementation of SCDDSN Provider Audit Policy

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Date of Last Revision: **April 15, 2008**

Applicability: Central Office, Executive Directors of DSN Boards

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### **GENERAL PROVISIONS - AUDITS**

Providers that fall into one of the following categories must obtain an audit in accordance with this policy:

1. DSN Boards, and those entities grandfathered in as DSN Boards, that receive \$300,000 or more in financial assistance (program contracts, grants, subgrants, etc.) from SCDDSN during the State fiscal year ended June 30 are required to obtain an annual financial audit.
2. DSN Boards, and those entities grandfathered in as DSN Boards, that expend \$500,000 or more in federal awards must obtain an audit in accordance with Federal Single Audit requirements (OMB Circular A-133).
3. If a DSN Board, or an entity grandfathered in as a DSN Board, that receives SCDDSN Federal or State funds makes a sub-grant to another organization with the funds, then the organization that receives and expends the sub-grant would also be considered a recipient of SCDDSN Federal or State funds. The recipient would treat the Federal or State funds as though the funds were received directly from SCDDSN and must obtain an audit in accordance with this policy if the amount received/expended falls into one of the two categories listed above.

If a provider is recognized as part of county government, then the county audit, if it meets the requirements of the SCDDSN audit policy, will be accepted and a separate audit of the provider is not necessary.

The audit is to be performed in accordance with generally accepted auditing standards by an independent certified public accountant, or a public accountant licensed on or before December 31, 1970. The resultant audit report is to be prepared in accordance with the applicable American Institute of Certified Public Accountant's Industry Audit Guide. The financial statements must be prepared in conformity with generally accepted accounting principles. Cash basis financial statements are not acceptable.

The following financial information for the SCDDSN funding year ended June 30 shall be included in the audit report. Failure to do so will make the report unacceptable. For provider organizations whose fiscal year coincides with the SCDDSN funding year ending on June 30, this information may be shown in the financial statements or in supplementary schedules in the audit report. Supplementary schedules will be necessary if the provider organization's fiscal year ends on a date other than June 30. For example, if the provider organization's fiscal year ends on September 30, the audit report will present financial statements for the fiscal year ended September 30. Supplementary schedules would then be included to present the required information for the SCDDSN funding year ended June 30. If the information is presented in supplementary schedules, the auditor should express an opinion on whether the information in the supplementary schedules is fairly stated in all material respects in relation to the financial statements taken as a whole. As with the financial statements, the supplementary schedules must be prepared in conformity with generally accepted accounting principles

SCDDSN required supplementary financial information:

1. Schedule of Revenues (in total for capitated or by program for non-capitated)
  - A. This schedule is to be developed using the same line item revenue detail as illustrated at Attachment A, pages 3 and 4.
  - B. Revenues for all programs covered by the "Contract For Person Centered Services and Supports Funded Through A Capitated Model" should be combined and presented in the aggregate to arrive at a grand total for all revenues received for capitated services. However, expenditures for capitated programs must be presented separately by program area.
  - C. Revenues for non-capitated programs should be presented separately by program.
  - D. Certified in-kind contributions of goods and/or services contributed in support of the program, which are necessary and which would

otherwise have to be purchased, must be shown separately. In-kind contributions should be disclosed as revenue and expenditures.

As an alternative, the CPA may present a schedule of revenues and expenditures for programs that receive capitated funding as a spreadsheet with separate columns for each program and a summary total of all capitated programs. This format may also be used for programs receiving non-capitated funding.

2. Schedule of Expenditures by Program

For both capitated and non-capitated services, the auditor should present the expenditures separately by program using the same line item expenditure detail as illustrated at Attachment A, page 5 and 6 of 7. Expenditures for residential programs should also be presented in detail for each residence within the program. The schedule is to include allocation of any administrative expenditure to various programs.

For those DSN Boards that are required to present their financial statements in accordance with GASB 34, the capital expenditures category will only disclose depreciation, amortization of start-up costs, and interest expense.

3. Schedule of Administration Revenues and Expenditures

A Schedule of Administration Revenues and Expenditures must be presented using the line item detail as illustrated at Attachment A, pages 1 and 2 of 7. The schedule is to indicate the costs allocated to the various individual programs.

4. Schedule of Expenditures of Federal Awards (SEFA)

The CPA should review all contracts to determine which are grants or subgrants. Any grants or subgrants that are funded with federal money should be included on the provider's SEFA. If a grant or subgrant is funded by SCDDSN with federal money, the grant contract will include the required CFDA number and the provider payment confirmation will show a 5000 source code for the payment. (Note: Some payments may be made from a 5000 source code but are not grants to the provider.) The SEFA must be prepared in accordance with this audit policy. If the provider does not receive a Single Audit, it is not necessary to include a SEFA in the audit report. For purposes of the Single Audit Act, Medicaid funds received by provider organizations are not considered federal awards; therefore, they would not be covered by the Act.

## **AUDIT REPORT/PROCEDURES**

1. The audit report is to be filed with SCDDSN within 90 days after the end of the provider organization's fiscal year.

The CPA should present in person the final audit report and any management letter comments at a meeting of the entire Board of Directors.

2. Failure to meet these audit requirements may result in withholding of subsequent advances and/or suspension of funding.
3. When the supplemental schedules (expenses by program – ICF/MR, CTH II, Early Intervention, Service Coordination, etc.) for Medicaid funded programs are presented on full accrual, the auditor is no longer required to reconcile adjusted allowable cost in the provider's cost report to total program cost in the audit report. If the schedules are not presented on full accrual, the auditor should reconcile adjusted allowable cost in the provider's cost report to total program cost in the audit report. This step should be performed for the SCDDSN Medicaid contract. The reconciliation should itemize each difference and be included in the audit report. If there are no reconciling items, or the auditor is unable to perform the reconciliation(s) due to the provider's failure to complete the cost reports, then the auditor should disclose that fact in the audit report.

When the audited financial statements and the cost reports are both presented on full accrual but the program costs for Medicaid funded programs per the audited financial statements do not equal the program costs per the cost reports, the auditor must provide a reconciliation.

Note: Service coordination is funded in three different program areas for financial statement purposes: capitated MR/RD service coordination, non-capitated MR/RD service coordination, and non-capitated HASCI service coordination. However, all three areas should be combined for Medicaid cost reporting purposes.

4. **Sampling is a standard audit technique used to test the adequacy of an organizations internal control procedures. When sampling is used, the auditor should give consideration to varying the sample selection in order to ensure that the same programs and time periods (i.e., CTH II for May) are not reviewed each year.**
5. All providers are required to submit cost allocation plans to SCDDSN. The auditor should determine if the cost allocation plan submitted by the provider is appropriate and complies with SCDDSN directive 250-05-DD, "Cost Principles for Grants and Contracts with Community Providers." **The auditor should also review the cost allocation plan to determine**

**that it has been updated for any additions or deletions to the basis used to allocate costs and that the current year cost allocations are materially correct.**

6. Providers are required to establish procurement policies and procedures in accordance with the requirements contained in SCDDSN directive 250-08-DD, "Procurement Requirements for Community Providers." The policies and procedures can be more restrictive but not less restrictive than the requirements in the directive. The auditor should perform audit tests to determine if the provider's procurement policies and procedures are in compliance with SCDDSN directive 250-08-DD. These tests should also determine if standards of conduct are included that require the members of the Board of Directors, Executive Director, and other key staff to provide signed statements [SC Code of Ethics, Section 8-13-1110, Items (B)(6), (B)(9), (B)(11), and Section 8-13-1120] to acknowledge/prevent potential conflicts of interest. The auditor should also determine that these statements have been provided and are on file.
7. A request for an extension of time to file an audit report must be submitted to SCDDSN internal audit by the provider in writing on the Board's letterhead stationary and signed by the Executive Director, and must be approved by SCDDSN internal audit. The request for an extension must be filed at least two weeks prior to the audit due date. Such requests will only be approved when they result from circumstances beyond the control of the provider organization or its independent auditor, or when approval would be to the benefit of SCDDSN.
8. In many cases, the provider organization handles funds for consumers. Within the fiduciary fund financial statements, an agency fund should be used to report such assets (i.e., collective accounts) that are held in trust for the consumers by the provider organization with a corresponding liability account to properly disclose the nature of the funds. If the funds are deposited into separate consumers' bank accounts and the consumers have custody of the funds, then an asset and related liability need not be recognized. In either case, the auditor should disclose the treatment of consumers' personal funds in the Notes to the Financial Statements.  
  
The consumers' personal funds footnote must describe the type of account(s) (community checking account or regional checking account) and the establishment of the account (i.e., is the account in the name of the consumer and/or the Board). In addition, the footnote should disclose signature requirements (can the consumer draw on the account with his/her signature alone or is the signature of one or more staff also required?), deposit procedures, and account reconciliation responsibilities, and whether all of these duties are properly segregated.

Note: The footnote should disclose this information for each type of program involving consumers' personal funds (i.e., ICF/MR, CRCF, CTH I, CTH II, SLP I, and SLP II).

The auditor should gain an understanding of controls over consumers' personal funds managed by provider staff. In order to gain an accurate understanding of the nature and treatment of consumers' personal funds, the auditor should consult with the residential program staff (i.e., residential directors, ICF/MR supervisors, and CTH and SLP coordinators) since these employees are directly responsible for compliance with SCDDSN directive 200-12-DD. Guidelines for controls/procedures are detailed in SCDDSN directive 200-12-DD, "Management of Funds for Individuals Participating in Community Residential Programs." The auditor should perform sufficient work to determine if the provider's policies and procedures are adequate to safeguard the consumers' funds and are in compliance with SCDDSN directive 200-12-DD. At a minimum, the auditor's work in the consumers' personal funds area should include the following audit procedures (references to directive 200-12-DD are included):

- A. Determine that each member of the provider staff having access to consumers' personal funds is bonded. [Item C]
- B. Determine that consumers' personal funds are not borrowed by the provider or loaned by the provider to another person, or combined or commingled in any way with the provider's operating funds. [Section III]
- C. Determine that consumers' checking and/or savings accounts are established in the consumers' names and social security numbers, or that they indicate that the accounts are for the benefit of the consumers. [Section IV Item A (b)]
- D. Determine that withdrawals from consumers' accounts require a cosignature of the facility or program director or his or her designee, unless a waiver is on file. [Section IV Item A (e)]
- E. Determine that a copy of the commercial bank signature card is on file in the consumers' permanent files. [Section IV Item A (f)]
- F. Determine that items costing \$50 or more are purchased by check from the consumers' accounts. [Section IV Item B (1)]
- G. Determine that all sources of income for the consumers are deposited within five business days of receipt to their accounts. [Section IV Item B (2)]



- H. Determine that bank reconciliations for consumers are being performed by a staff member who is not a cosigner for the accounts. [Section IV Item B (6)]
  - I. Determine, through a representative sample of consumers' purchases, that receipts are on hand to support expenditures for non-incidental purchases made from the consumers' personal funds. [Section IV Item B (7)]
  - J. Determine that consumers' cash on hand (consumers' cash held in the unit by staff) does not exceed \$50. [Section VI]
  - K. Determine that actual counts of consumers' cash held by residential staff, and agreement of the counts to the records, are done monthly by someone who does not have authority to receive or disburse cash. The count and agreement to the records must be documented in the cash records. [Section VI]
  - L. Determine that checks are not written to cash. [Section VI]
9. Medicaid consumers receive services provided either by the Board or a third party vendor under the Medicaid program. If a third party vendor provides the services, it must be authorized by the service coordination provider, approved by the Financial Manager, and documented in the consumer's single plan. The Board or the third party vendor receives payments for the Medicaid billable services rendered to the consumers from either SCDDSN or the SC Department of Health and Human Services. Although it is an accepted practice for auditors to rely on the work of other professionals, the required minimum procedures were added to provide reasonable assurance that billings are appropriate and accurate, and must be performed unless a written request for a waiver is submitted to and approved by SCDDSN internal audit. At a minimum, the auditor's work in the area of Medicaid billable services should include the following audit procedures:
- A. The auditor should gain an understanding of the Medicaid billing process and controls over Medicaid billable services (Board and direct billed). In order to gain an accurate understanding of this process, the auditor should consult with the program staff (i.e., Early Intervention Supervisor, Lead Clinical Supervisor, Day Program Director, Director of Service Coordination, etc.) since these employees are directly responsible for Medicaid compliance and should be familiar with how Medicaid is billed. The auditor should perform sufficient work to determine if the provider organization's policies and procedures are adequate to provide reasonable assurance that Medicaid billable services are correct. (Chapter 10 of the DDSN Finance Manual should provide guidance.

All providers have been given an updated version of the manual on compact disk.)

- B. The auditor should select a representative sample of the Medicaid billable services from all programs for which the Board or a third party vendor is receiving payments for Medicaid billable services rendered to the consumers (i.e., early intervention, residential habilitation, day habilitation, supported employment, facility or individual rehabilitation supports, respite, companion, service coordination, etc.). For the sample selected, the auditor should determine the following:
1. Documentation [i.e., Service Provision Logs (SPL) for the day program and service coordination; Individualized Service Requests (ISR) for early intervention, respite, and individual rehabilitation supports; daily census reports for residential services; service notes; attendance logs; consumer leave records; etc.] is on file to support the billings. Tests should also be performed to determine that the supporting documentation for the SPLs, ISRs, and daily census reports provides reasonable assurance that the billings are supported by complete and accurate information.
  2. Services are being provided to the consumers as indicated in the documentation on file. For example, if the Early Intervention program is selected, have the early intervention supervisor make contact (face-to-face or phone call) with the consumer and/or family members and inquire if the services were provided as indicated in the service notes.
  3. Monitorship (review of service notes, phone contacts with family members and/or employers, visits to family members' homes and/or consumers' job sites, etc.) is being provided by supervisory staff, as evidenced by their signature or initials and date of the review, on an on-going basis so as to provide reasonable assurance to the provider organization that the billable services are being provided to the consumers and/or families as indicated by the documentation on file.
10. As part of the expenditure test work, the auditor should include a representative sample of financial transactions made by or on behalf of the executive director and top administrative staff of the provider organization; (i.e., travel, credit cards, cellular telephones, etc.)
11. The auditor must indicate which findings are being repeated from the prior year's audit.

12. If the auditor becomes aware of thefts involving provider or consumers' funds and/or any falsification of Medicaid billable services, the auditor should promptly report that information to SCDDSN internal audit.

### **CORRECTIVE ACTION PLANS**

When the auditor's report identifies material weaknesses, reportable conditions or questioned costs, the provider organization must submit a corrective action plan to eliminate the audit findings, or submit a statement of reasons why no corrective action is necessary. The corrective action plan should be prepared on Board letterhead stationary and signed by the Executive Director. The corrective action plan must be submitted to SCDDSN internal audit within 30 days after issuance of the audit report. The corrective action plan could also be submitted or included as part of the audit report when issued. Included in the corrective action plan should be estimated dates that the findings will be corrected by the provider organization, or the actual dates of implementation.

### **CONFIRMATIONS - SCDDSN PAYMENTS**

The independent auditor's confirmation of SCDDSN payments made to a provider organization is to be secured from SCDDSN's Director of Finance (3440 Harden Street Extension, P.O. Box 4706, Columbia, S.C. 29240). Confirmations will show all payments made between July 1 and the following June 30. Payments will be identified by SCDDSN contract number. The auditor should reconcile SCDDSN payments per the confirmation with revenue per the provider's books. Questions concerning confirmations should be addressed to SCDDSN's Accounting Manager at (803) 898-9682.

Note: The audit confirmation does not show payments for capitated services broken down by program. The audit confirmations will read "Capitated Services – Original", "Capitated Services – Amendment # 1", etc. However, the revenues for capitated services should be reconciled in grand total only to the provider records as providers have the flexibility under this contract to shift revenues as needed among capitated services.

### **ADDRESSEE**

The reports on examination of provider organizations are to be addressed to the governing boards.

### **DISTRIBUTION**

Original copies of the audit report shall be filed as follows:

1. Executive Director of the provider organization.
2. Chairperson of the provider organization's governing board.

3. SCDDSN District I Director (PO Box 239, Clinton, SC 29325-5328) or District II Director (9995 Miles Jamison Road, Summerville, SC 29485).
4. SCDDSN Internal Audit (3440 Harden Street Extension, P.O. Box 4706, Columbia, S.C. 29240).
5. SCDDSN Director of Cost Analysis (3440 Harden Street Extension, P.O. Box 4706, Columbia, S.C. 29240).

To expedite the filing of reports, the auditing firm should mail original copies of the audit report directly to SCDDSN Internal Audit.

### **INSPECTION/ACCEPTANCE**

Final inspection and acceptance of audit documents shall be the responsibility of SCDDSN's internal audit division.

### **CONTRACT REQUIREMENT**

The contract for audit services may be submitted for a one-year period. However, each provider organization could contract for a period encompassing up to five successive fiscal years. If this option is chosen, the contract must include appropriate termination clauses in the event there is a cessation of activity or termination of funding prior to the conclusion of the contract period. The contract should also include appropriate wording on steps to be taken in the event additional federal or state audit requirements are implemented in future years.

The audit cost should be detailed by year by the auditor. However, if the contract indicates the cost for the entire five-year period but is not detailed by year, then the cost for the audit of each fiscal year will be assumed to be one-fifth of the total cost. The provider organization should pay accordingly after the final report has been delivered or based on interim billings from the auditor for services provided while the current fiscal year audit is in process.

While provider organizations are not required to obtain bids for audit services, SCDDSN believes that obtaining such bids is a good practice. SCDDSN, therefore, encourages provider organizations to obtain bids for audit services. In order to meet filing requirements, provider organizations should contract with audit firms before the end of the fiscal year. The contract should indicate the total maximum fee amount, the estimated hours to perform the audit, and the date the final audit report will be delivered to the provider organization. Consideration should also be given to including a clause in the contract that would allow the provider to terminate the contract if the auditor's work is found to be unacceptable or substandard by the provider and/or regulatory agencies.

### **WORKING PAPERS**

Working papers are to be retained by the audit firm for six years following the end of the fiscal year being audited. Retention of working papers beyond six years is required for

audits of provider organizations where questioned costs and/or practices have not been resolved with SCDDSN.

Working papers must be available, upon request, for examination by representatives of SCDDSN or its designee as well as successor auditors who may perform audits of the provider organization. Availability of workpapers must be at no additional cost to the representatives of SCDDSN, or the successor auditor.

The auditor may be required to provide copies of any specific portions of workpapers requested by SCDDSN Internal Audit. This request would normally be made during the course of an on-site review.

### **AMENDMENTS TO AUDIT REPORTS**

Where additional explanations or corrections are necessary after a report has been filed, supplements should be prepared by the audit firm for all copies and distributed as in "Distribution" above.

### **COST OF ADDITIONAL AUDIT WORK**

The provider should give a copy of this audit policy to the auditor prior to the start of the audit to ensure that SCDDSN's audit requirements are met. The auditor must include a signed statement, which references the revision date of the current SCDDSN audit policy, with the audit report stating that he has read and complied with the requirements of the policy.

If a provider organization does not provide a copy of this audit policy to an auditor, and subsequent revision must be made to the audit report, the extra cost will normally be the responsibility of the provider organization.

If an auditor who has been given this audit policy must adjust the report to comply with the audit policy, the additional cost will normally be the responsibility of the auditor.

### **AUDIT QUALITY**

To verify that the responsibility of quality audits is accomplished, the SCDDSN Internal Audit division will work with other SCDDSN staff, as well as other state agencies, to:

1. Ensure that all audit reports of provider organizations are received, reviewed and distributed to appropriate SCDDSN officials.
2. Ensure that if significant inadequacies relating to the professional performance of the audit are disclosed, the provider organization will be advised and the auditor will be called upon to take corrective action. If corrective action is not taken, SCDDSN shall notify the provider organization and other agencies of the facts. Major inadequacies or repetitive substandard performance of independent auditors shall be referred to appropriate professional bodies.

3. Ensure that satisfactory audit coverage is provided in a timely manner in accordance with SCDDSN audit requirements.
4. Maintain a follow-up system on audit findings and investigative matters.

The State Board of Accountancy may review a sample of provider audit reports for compliance with professional standards.

### **QUESTIONED COSTS**

In performing the audit, the auditor should consider whether expenditures are reasonable and necessary for the program to which they are charged. Limitations on costs for awards are detailed in SCDDSN directive 250-05-DD, "Cost Principles for Grants and Contracts With Community Providers." Individual negotiations and reviews will occur between the provider organization and SCDDSN on all questioned costs pertaining to SCDDSN programs. Final resolution, use of audit information, and applicability resides with SCDDSN.

### **AMENDMENTS TO AUDIT POLICY**

This document is subject to alteration or change as needed. Any changes will be made at the discretion of SCDDSN.

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Kevin Yacobi, CIA, CGAP, CBM, CFS  
Director of Internal Audit  
(Originator)

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Stanley J. Butkus, Ph.D.  
State Director  
(Approver)